

Nextel Communications
2001 Edmund Halley Drive, Reston, VA 20191



May 6, 2004

Marlene H. Dortch, Secretary
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

Re: WT Docket No. 02-55
Written Ex Parte Presentation

Dear Ms. Dortch:

Nextel Communications, Inc. ("Nextel") hereby files with the Federal Communications Commission a report prepared by American Appraisal Associates ("American Appraisal"), concerning the value of the spectrum at issue in the above-referenced proceeding. American Appraisal's report critiques the three spectrum valuation reports prepared by Kane Reece Associates, Inc. ("Kane Reece") and submitted by Verizon Wireless ("Verizon") in the proceeding.

Founded in 1896, American Appraisal is the world's largest independent valuation consulting firm with more than 50 offices on four continents. American Appraisal follows the Uniform Standards of Professional Appraisal Practice ("USPAP") and has applied these standards in reviewing the appraisal methodology and key assumptions Kane Reece used in estimating the fair market value for Nextel's 700 MHz, 800 MHz, and 900 MHz spectrum holdings, as well as the value of the 10 MHz of nationwide 1.9 GHz replacement spectrum Nextel would receive under the Consensus Plan for 800 MHz Realignment under consideration in WT Docket No. 02-55.

American Appraisal's report identifies methodology mistakes and inaccurate financial assumptions that render Kane Reece's 1.9 GHz spectrum valuation unreliable. Similar mistakes also impeach the accuracy and reliability of Kane Reece's valuation of Nextel's spectrum contributions to the Consensus Plan. *These errors render Kane Reece's appraisals of both the 1.9 GHz replacement spectrum and Nextel's spectrum noncompliant with binding USPAP requirements.*

Kane Reece used two approaches to valuing the 1.9 GHz replacement spectrum: an income model and a residual market value model. As to its income model, American Appraisal demonstrates that Kane Reece used an unreasonably low discount rate. (The discount rate represents the rate at which an investor would require returns in order to be

compensated for the risk of undertaking the investment. The lower the discount rate, the higher the value of the spectrum asset in the Kane Reece model.) Kane Reece assumed an 11 percent discount rate for a likely acquirer of the 1.9 GHz spectrum.

American Appraisal demonstrates, however, that major Wall Street analysts typically use a discount rate for investments by a large wireless company of about 13 percent. It further demonstrates that using a discount rate of up to about 15 percent would be reasonable because the risk factors inherent in investing in the 1.9 GHz spectrum are greater than and more analogous to a “start-up” business model than a wireless operator’s existing business. Holding all other assumptions and values in the Kane Reece model constant, a change in the discount rate of just one percent decreases the value of the 1.9 GHz spectrum from \$5 billion to \$4 billion. American Appraisal indicates that using all of Kane Reece’s assumptions with the exception of a more reasonable discount rate of 13 percent would yield a 1.9 GHz valuation of \$3.2 billion – *more than two billion dollars lower than the \$5.4 billion valuation touted by Verizon in this proceeding.* Using a higher discount rate, and/or making other reasonable adjustments to Kane Reece’s assumptions, would yield an even lower valuation.

American Appraisal’s report also indicates that Kane Reece made various errors in its residual market value model for valuing the 1.9 GHz spectrum, including the compound error of taking a control or acquisition premium in its calculations and placing the total value premium on the FCC licenses. American Appraisal concludes that it cannot place any reliance on spectrum valuations determined through Kane Reece’s methodology of identifying the residual value of the FCC licenses of existing wireless companies and generating from that a 1.9 GHz spectrum valuation for this proceeding.

Kane Reece substantially devalued Nextel’s 700 MHz, 800 MHz and 900 MHz contributions to the Consensus Plan asserting that this spectrum cannot be used for efficient advanced technology deployment. American Appraisal reviewed Kane Reece’s methodology and found that it misses the point of valuing an intangible asset such as spectrum and is therefore unreliable.

American Appraisal states that the value of an intangible asset lies in its ability to contribute to earnings and value creation for its owner. It points out that Kane Reece’s own data demonstrates that Nextel’s spectrum is worth considerably more than the industry average; Nextel’s earnings margin exceeds that of the industry average, and Nextel has the highest cash flow per subscriber in the industry. In other words, the fact is that Nextel has already deployed a highly efficient technology that enables it to achieve industry leading financial performance. Given that the ability to generate revenue and cash flow is a primary determinant of spectrum value, *the facts demonstrate no impairment of Nextel’s spectrum to support Kane Reece’s substantially reduced valuation conclusions.*

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In conclusion, American Appraisal's review of the Kane Reece reports demonstrates that Kane Reece overvalued the 1.9 GHz spectrum and undervalued Nextel's spectrum contributions. This means that Verizon is incorrect in asserting that the Consensus Plan would confer a multi-billion dollar windfall on Nextel. On the contrary, as Nextel has demonstrated on the record in this proceeding, the 1.9 GHz replacement spectrum would provide Nextel fair and reasonable compensation for the spectral and financial contributions it must make to effectuate 800 MHz realignment and eliminate commercial – public safety interference under the Consensus Plan.

Respectfully submitted,

[/s/ Lawrence R. Krevor](#)

Lawrence R. Krevor
Vice President – Government Affairs
Nextel Communications, Inc.

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